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BANKERS TRUST COMPANY

ECONOMIC BENCHMARKS

October 4, 1979

THE ECONOMY IN EARLY AUTUMN

Although almost no one now questions that the 1975-1979 economic expansion has come to an end, there are still wide differences of opinion as to the path that business activity will follow during the rest of this year and moving into 1980. With an auto strike having been averted, the predominant view seems to be that sales and output will decline moderately further, with recovery probably setting in some time in the spring. But more than a few forecasters are voicing concern that the prospective business downturn could turn out to be fairly severe, while some other well-regarded analysts look for little more than a period of extended sluggishness in economic activity, with the real weakness probably not coming until late next year.

This lack of agreement on the outlook is not altogether surprising in light of the inconclusive behavior of the economy during the first nine months of this year. After an unexpectedly weak showing in the spring, business activity strengthened more than most forecasters had anticipated over the summer. The leading indicators likewise have been tracing an indecisive pattern for some months. And the start of autumn still finds signs of strength as well as weakness in the economy, with the mood among businessmen seemingly leaning more toward caution than downright pessimism.

Even so, the persistence of inflation at a double-digit pace, together with the continued weakness of the dollar and the recent rise in most key interest rates to all-time highs, obviously is casting a shadow over the near-term business outlook. As of now, it appears that the economy is in for something more than just a period of "stagflation," but something less than a replay of the 1974-75 recession. How far the current slowdown in economic activity will extend, however, will depend importantly upon the course of monetary and fiscal policy in the coming months and upon business and consumer psychology.

The Battered Consumer The behavior of consumer spending will be especially important in setting the tone and pattern of economic activity in the months ahead, and prospects at the moment are far from reassuring. Reflecting the squeeze on consumers' purchasing power as a result of the rampant inflation, retail sales, after adjustment for price increases, have been declining almost all year. Buying picked up somewhat over the summer, as the availability of gasoline became less of a day-to-day problem for shoppers, and new-auto sales rebounded after Chrysler began to offer sizable cash rebates and the other auto companies also embarked on aggressive sales incentive programs. But retail trade could well weaken again before long, given the recent easing in employment, the continuing erosion of disposable income, the deterioration in consumer confidence and the heavy burden of consumer debt, now that Chrysler has stopped the cash rebates, and once the new model introductions are fully digested, new-car sales in particular will most likely drop again.

In all probability, we have seen a good part of the cutback in consumer spending, and there are a few other pluses in the outlook. Wages will no doubt be rising faster in the coming months, now that the guidelines are being relaxed, and a Federal income tax cut, if enacted soon, would presumably give a lift to consumer buying early next year. Still, the amount of tax relief now under consideration is not apt to spark any broad and lasting revival in retail trade, especially in sales of big-ticket items—new cars, furniture, appliances and the like. In any event, a significant pickup in consumer buying is hardly expected until there are signs that the employment situation is stabilizing and there is a meaningful and convincing reduction in the rate of inflation, which may not be until well into 1980.

Housing Yet to React While residential building has held up much better thus far this year than was generally anticipated, indications are that it, too, will decline in the months ahead. The recent sharp advance in interest rates not only raised the cost of funds but also reduced the flow of deposits to the thrift institutions over the summer, with the result that home mortgage rates pushed up to record levels, the availability of residential mortgage money is being curtailed and credit terms generally have been tightened. These financing restraints, together with the ongoing rapid rise in living costs, are beginning to shut some potential buyers out of the housing market and are making builders apprehensive.

The residential mortgage market, however, is less vulnerable to high interest rates now than in earlier periods. And many families look upon the purchase of a home as a good investment. Also, there is no overbuilding of condominiums, as in the early 1970s, and apartment vacancies in most localities still are quite low. Accordingly, a steep drop-off in housing starts, such as occurred in 1974, does not appear to be in the cards; by the same token, a turnaround in home building appears some distance away.

Nonresidential construction likewise seems poised to recede moving into 1980, though not to the same degree as housing. Commercial building has strengthened noticeably during the past two years, but it tends to follow, with a lag, the pattern of residential building. The pace of public construction already is slowing because of rapidly rising construction costs and, in some cases, financing restraints. And judging from the recent behavior of new contract awards, industrial building has evidently peaked.

QUARTERLY ECONOMIC BENCHMARKS

(dollar amounts in billions)

	1978				1979				1980			
	1st (act.)	2nd (act.)	3rd (act.)	4th (act.)	1st (act.)	2nd (act.)	3rd (est.)	4th (proj.)	1st (proj.)	2nd (proj.)	3rd (proj.)	4th (proj.)
GNP (const. 1972$)	1367.8	1395.2	1407.3	1426.6	1430.6	1422.3	1425.9	1411.3	1399.8	1396.1	1406.1	1420.0
Per cent change (1)	1.9	8.3	3.5	5.6	1.1	−2.3	1.0	−4.0	−3.2	−1.0	2.9	4.0
GNP price deflator (2)	147.0	150.8	153.4	156.7	160.2	163.8	167.4	171.4	175.1	178.5	181.8	185.3
Per cent change (1)	6.3	10.7	7.2	8.7	9.3	9.3	9.0	10.0	9.0	8.0	7.5	8.0
Consumer price index (3)	188.9	193.5	197.7	202.0	207.4	214.1	220.7	226.9	233.0	239.1	244.6	249.7
Per cent change (1)	8.9	10.7	8.4	8.5	13.0	13.4	13.0	11.0	11.5	10.5	9.0	9.5
Gross national product	2011.3	2104.2	2159.6	2235.2	2292.1	2329.8	2386.7	2419.2	2451.7	2492.8	2556.4	2631.8
Consumer spending	1287.2	1331.2	1369.3	1415.4	1454.2	1475.9	1514.7	1540.6	1564.3	1597.0	1639.1	1689.7
Durable goods	185.3	200.3	203.5	212.1	213.8	208.7	215.0	213.2	211.1	214.0	218.9	227.1
Autos and parts	84.1	93.5	92.4	94.9	97.7	89.1	93.0	90.0	86.4	87.5	89.6	93.8
Other durables	101.2	106.8	111.1	117.2	116.1	119.5	122.0	123.2	124.7	126.5	129.3	133.3
Nondurable goods	505.9	521.8	536.7	558.1	571.1	581.2	594.0	606.4	616.4	628.4	645.7	665.0
Services	596.0	609.1	629.1	645.1	669.3	686.0	705.7	721.1	736.8	754.6	774.5	797.6
Investment outlays	327.0	352.3	356.2	370.5	373.8	395.4	404.2	393.4	388.9	386.0	396.2	409.4
Fixed investment	304.1	326.5	336.1	349.8	354.6	361.9	369.2	373.4	373.9	376.0	384.2	394.4
Nonresidential	203.7	218.8	225.9	236.1	243.4	249.1	253.7	258.4	261.9	266.1	271.7	277.9
Structures	66.9	75.2	79.7	84.4	84.9	90.5	92.0	93.8	95.1	96.4	98.3	100.3
Equipment	136.8	143.6	146.3	151.8	158.5	158.6	161.7	164.6	166.8	169.7	173.4	177.6
Residential	100.5	107.7	110.2	113.7	111.2	112.9	115.5	115.0	112.0	109.8	112.5	116.5
Change in inventories	22.8	25.8	20.0	20.6	19.1	33.4	35.0	20.0	15.0	10.0	12.0	15.0
Net exports	−22.2	−7.6	−6.8	−4.5	4.0	−8.1	−10.6	−8.4	−7.4	−7.0	−7.8	−9.4
Exports	184.4	205.7	213.8	224.9	238.5	243.7	253.0	261.5	269.0	276.1	283.4	290.3
Imports	206.6	213.3	220.6	229.4	234.4	251.9	263.6	269.9	276.5	283.1	291.3	299.6
Government expenditures	419.4	428.3	440.9	453.8	460.1	466.6	478.4	493.6	505.9	516.8	528.9	542.0
Federal	150.9	148.2	152.3	159.0	163.6	161.7	167.2	175.1	180.7	185.3	190.6	195.9
National defense	97.6	98.2	99.0	101.2	103.4	106.0	108.9	113.5	117.3	120.1	123.4	126.7
Other	53.3	50.0	53.3	57.8	60.2	55.7	58.3	61.6	63.4	65.2	67.1	69.2
State and local	268.5	280.1	288.6	294.8	296.5	304.9	311.2	318.5	325.2	331.5	338.3	346.1
Final sales	1988.5	2078.4	2139.5	2214.5	2272.9	2296.4	2351.7	2399.2	2436.7	2482.8	2544.4	2616.8
Per cent change (1)	7.5	19.3	12.3	14.8	11.0	4.2	10.0	8.3	6.4	7.8	10.3	11.9
Final sales (const. 1972$)	1351.3	1379.6	1395.1	1414.6	1418.4	1404.1	1405.0	1399.6	1391.2	1390.5	1399.5	1411.9
Per cent change (1)	.4	8.6	4.6	5.7	1.1	−4.0	.3	−1.5	−2.4	−.2	2.6	3.6
Personal income	1634.8	1689.3	1742.5	1803.1	1852.6	1892.5	1940.3	1977.4	2009.5	2051.2	2108.1	2171.3
Disposable income	1395.0	1437.3	1476.5	1524.8	1572.2	1601.7	1639.5	1668.9	1710.1	1743.5	1787.7	1837.0
Disposable income (1972$)	956.6	966.1	976.2	991.5	996.6	993.0	986.2	976.6	976.4	972.1	974.7	981.7
Saving rate (per cent)	5.3	5.0	4.8	4.7	5.0	5.4	5.1	5.2	6.0	5.9	5.8	5.5
Pretax profits	177.5	207.2	212.0	227.4	233.3	227.9	222.1	208.9	196.6	200.7	210.7	221.8
Nonfinancial	155.2	183.3	186.5	200.3	202.3	196.9	192.1	179.9	167.6	171.2	180.2	190.3
Domestic operating	104.3	130.0	135.1	143.8	135.9	133.9	125.0	117.0	109.0	112.0	119.0	127.0
Domestic inventory	23.9	25.1	23.0	28.8	39.9	36.6	40.0	35.0	30.0	30.0	31.5	33.0
Capital consumption adj	12.4	12.6	13.8	13.8	14.5	14.7	15.2	15.7	16.2	16.7	17.2	17.7
Foreign	10.1	11.0	10.2	9.6	11.9	11.7	11.9	12.2	12.4	12.5	12.5	12.6
Financial	26.8	28.4	30.0	31.5	31.0	31.0	30.0	29.0	29.0	29.5	30.5	31.5
After-tax profits	106.7	122.4	124.6	132.3	142.0	139.3	135.9	128.3	126.2	128.8	135.0	141.9
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Plant & equipment exp.	144.2	150.8	155.4	164.0	165.9	173.5	177.5	180.5	182.5	184.9	188.5	192.6
Private housing starts (4)	1.80	2.10	2.04	2.08	1.62	1.83	1.80	1.65	1.50	1.40	1.50	1.60
Auto sales-incl. imports (4)	10.78	11.93	11.34	11.19	11.63	10.53	11.00	10.00	9.50	9.70	10.10	10.55
Industrial production (3)	140.8	145.1	147.9	150.7	152.2	151.9	151.4	149.0	147.1	146.6	148.0	150.6
Per cent change (1)	1.4	12.8	7.9	7.8	4.0	−.8	−1.3	−6.0	−5.0	−1.5	4.0	7.0
Unemployment rate (per cent)	6.2	6.0	6.0	5.8	5.7	5.7	6.0	6.8	7.4	7.6	7.6	7.5

(1) quarter to quarter, annual rate
(2) index number, base 1972=100
(3) index number, base 1967=100
(4) millions of units
Note: data are seasonally adjusted at annual rates

Economics Division
October 4, 1979

ANNUAL ECONOMIC BENCHMARKS

(dollar amounts in billions)

	1977 (act.)	1978 (act.)	1979 (proj.)	1980 (proj.)	Per Cent Change 1976-77	1977-78	1978-79	1979-80	Per Cent Change (4th Qtr. to 4th Qtr.) 1976-77	1977-78	1978-79	1979-80
GNP (constant 1972$)	1340.5	1399.2	1422.5	1405.5	5.3	4.4	1.7	−1.2	5.7	4.8	−1.1	.6
GNP price deflator (1)	141.7	152.0	165.7	180.2	6.0	7.3	9.0	8.8	6.2	8.2	9.4	8.1
Consumer price index (2)	181.5	195.5	217.3	241.6	6.5	7.7	11.1	11.2	6.7	9.0	12.3	10.0
Gross national product	1899.5	2127.6	2357.0	2533.2	11.6	12.0	10.8	7.5	12.3	13.4	8.2	8.8
Consumer spending	1210.0	1350.8	1496.4	1622.5	11.0	11.6	10.8	8.4	11.3	12.4	8.8	9.7
Durable goods	178.8	200.3	212.7	217.8	13.6	12.0	6.2	2.4	14.4	13.8	.5	6.5
Autos and parts	81.6	91.2	92.5	89.3	16.6	11.8	1.3	−3.4	14.8	13.4	−5.2	4.2
Other durables	97.2	109.1	120.2	128.5	11.2	12.2	10.2	6.9	14.1	14.1	5.1	8.2
Nondurable goods	481.3	530.6	588.2	638.9	8.4	10.2	10.8	8.6	9.0	11.8	8.6	9.7
Services	549.8	619.8	695.5	765.9	12.5	12.7	12.2	10.1	12.3	12.4	11.8	10.6
Investment outlays	303.3	351.5	391.7	395.1	24.8	15.9	11.4	.9	26.4	16.9	6.2	4.1
Fixed investment	281.3	329.1	364.8	382.1	20.8	17.0	10.8	4.8	19.9	17.2	6.8	5.6
Nonresidential	189.4	221.1	251.2	269.4	14.9	16.7	13.6	7.3	15.3	18.9	9.5	7.5
Structures	62.6	76.5	90.3	97.5	9.3	22.2	18.0	8.0	13.6	27.5	11.1	7.0
Equipment	126.8	144.6	160.9	171.9	17.9	14.1	11.2	6.8	16.1	14.7	8.5	7.9
Residential	91.9	108.0	113.6	112.7	35.0	17.5	5.2	−.8	30.1	13.8	1.1	1.3
Change in inventories	21.9	22.3	26.9	13.0	*	*	*	*	*	*	*	*
Net exports	−9.9	−10.3	−5.8	−7.9	*	*	*	*	*	*	*	*
Exports	175.9	207.2	249.2	279.7	7.7	17.8	20.3	12.3	2.7	29.1	16.3	11.0
Imports	185.8	217.5	255.0	287.6	19.6	17.0	17.2	12.8	15.6	19.3	17.7	11.0
Government expenditures	396.2	435.6	474.7	523.4	9.7	9.9	9.0	10.3	11.5	9.9	8.8	9.8
Federal	144.4	152.6	166.9	188.1	11.3	5.7	9.4	12.7	12.3	5.2	10.1	11.9
National defense	93.7	99.0	108.0	121.9	8.4	5.6	9.0	12.9	8.8	5.0	12.2	11.6
Other	50.6	53.6	58.9	66.2	17.0	5.8	10.0	12.4	19.1	5.5	6.6	12.4
State and local	251.8	283.0	307.8	335.3	8.7	12.4	8.8	8.9	11.0	12.7	8.0	8.7
Final sales	1877.6	2105.2	2330.0	2520.2	11.0	12.1	10.7	8.2	11.3	13.4	8.3	9.1
Final sales (const. 1972$)	1327.4	1385.1	1406.8	1398.3	4.8	4.4	1.6	−.6	4.9	4.8	−1.1	.9
Personal income	1531.6	1717.4	1915.7	2085.0	10.9	12.1	11.5	8.8	11.5	12.9	9.7	9.8
Disposable income	1305.1	1458.4	1620.6	1769.6	10.2	11.7	11.1	9.2	11.3	12.0	9.5	10.1
Disposable income (1972$)	929.5	972.5	988.1	976.2	4.2	4.6	1.6	−1.2	5.4	4.2	−1.5	.5
Saving rate (per cent)	5.0	4.9	5.2	5.8	*	*	*	*	*	*	*	*
Pretax profits	177.1	206.0	223.0	207.4	13.5	16.3	8.3	−7.0	17.2	24.3	−8.1	6.2
Nonfinancial	156.4	181.3	192.8	177.3	12.9	15.9	6.3	−8.0	17.7	24.1	−10.2	5.8
Domestic operating	116.5	128.3	127.9	116.7	15.4	10.2	−.3	−8.8	21.6	22.1	−18.6	8.5
Domestic inventory	15.2	25.2	37.9	31.1	3.2	66.6	50.3	−17.8	−8.6	69.4	21.5	−5.7
Capital consumption adj.	12.0	13.1	15.0	16.9	−17.0	9.1	14.3	12.8	1.6	6.2	13.8	12.7
Foreign	9.8	10.2	11.9	12.5	19.8	3.8	16.6	4.8	11.0	5.5	27.1	3.3
Financial	23.6	29.2	30.2	30.1	34.0	23.4	3.7	−.4	34.5	20.7	−7.9	8.6
After-tax profits	104.5	121.5	136.4	133.0	13.4	16.3	12.2	−2.5	15.8	22.6	−3.1	10.6
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Plant & equipment exp.	135.7	153.6	174.3	187.2	13.0	13.2	13.5	7.3	10.3	18.7	10.1	6.7
Private housing starts (3)	1.96	2.01	1.73	1.50	27.9	2.3	−14.0	−13.1	23.6	−.6	−20.6	−3.0
Auto sales-incl. imports (3)	11.18	11.31	10.80	9.96	10.6	1.1	−4.6	−7.7	7.6	1.0	−10.7	5.5
Industrial production (2)	138.1	146.1	151.1	148.1	5.9	5.8	3.4	−2.0	5.9	7.4	−1.1	1.0
Unemployment rate (per cent)	7.0	6.0	6.1	7.5	*	*	*	*			*	*

(1) index number, base 1972=100
(2) index number, base 1967=100
(3) millions of units
* Not applicable

Economics Division
October 4, 1979

The Inventory Question Appraisals of the condition of business inventories have shifted signficantly since early summer, and it is apparent that the inventory situation will play a crucial role influencing economic activity in the coming months. During the spring, there was a marked step-up in the rate of inventory accumulation among manufacturers, and additions to total inventories in July was the largest for any month in five years. Judging from the strength of business loans at commercial banks, the rate of buildup of stocks on hand was quite rapid throughout the summer. So far, however, the only area where inventories have become a serious problem is in the automobile industry, where the number of new cars in dealers' lots and showrooms was a record at midsummer and still is excessive for this time of year, despite the recent production cutbacks and heavy sales promotions. Past experience in periods of a slowdown in business sales, however, suggests that inventory imbalances may be developing elsewhere.

It can reasonably be expected, therefore, that industry will cut back on additions to stocks in the next few months, and there is the possibility of some inventory liquidation carrying into next year. There is no evidence of speculative stockpiling of raw materials and supplies, as in 1974, and, if only because a recession has been so widely forecast, business managements presumably are maintaining better control over finished goods inventories this time around. Consequently, the expected inventory adjustment in the months ahead does not now loom either severe or protracted.

Capital Spending Picture Business investment in new plant and equipment, the primary source of support to economic activity so far this year, should hold up well through the rest of 1979. While new orders for machinery and equipment have been trending downward since the spring, there is a large volume of commitments outstanding. Also, in view of the general expectations of a mild business downturn, many company managements appear reluctant to cut back on their investment programs at this time.

Nevertheless, outlays are likely to slow moving into and on through next year, even though there is a need in many industries to add to productive capacity and tax incentives to spur business investment may be enacted in 1980. Plant and equipment spending tends to turn down after the decline in economic activity elsewhere, and capital spending programs for next year are bound to reflect the recent softness in retail trade, the emerging squeeze on corporate profits and the existing high cost of financing.

Meanwhile, U.S. exports—manufactured goods as well as agricultural products—are doing quite well, and should continue strong, although the slackening of economic growth abroad points to a less favorable performance for overseas sales next year. And on the domestic front, Government spending—state and local as well as Federal—is rising, and the outlook is for some pickup in defense outlays.

Summing Up The weight of the evidence points to a continuation and probable broadening of the recent easing in industrial production, along with a softening in construction activity, as the economy moves into and on through the winter. But assuming only a little further tightening in monetary policy followed by a gradual easing, and, in time, enactment of a tax cut, the decline in business activity should bottom out before midyear. Thereafter, the economy may mark time for a while, before moving up slowly in the latter half of 1980.

In this environment, unemployment is bound to increase—from around 6 per cent currently to the range of 7½ to 8 per cent by mid-1980—and an additional drop of at least 10 to 15 per cent in pretax corporate profits is probable before they turn up again. The more immediate concern, however, is how much progress will be made in slowing the galloping inflation.

Inflation Prospects While the downturn in economic activity should help to relieve some of the strong inflationary pressures currently, prices almost surely will be rising at a historically high rate again in 1980. Even without another OPEC increase in petroleum prices, energy costs will be going up for some time as the full impact of the last jump in oil prices filters down through the economy. Food prices, particularly meat, can be expected to move higher next year, notwithstanding this year's bumper grain harvests. Costs of most services are rising steadily. And labor costs will continue to be pushed up by the sluggish behavior of productivity, as well as by the oversized union wage settlements in excess of the guidelines.

After the sharp rise in living costs this past year, there is also every prospect of an accleration of wages in the nonunion sector. The President increased the amount of Federal pay raises on October 1. And the wage guidelines for the private sector of the economy are about to be loosened. In short, and barring some pleasant surprises, we will do well if the rise in the consumer price index next year can be held to as low as 9 per cent.

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BANKERS TRUST COMPANY

ECONOMIC BENCHMARKS

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MAR 21 1980

February 27, 1980

THE ECONOMY IN 1980—A REASSESSMENT

The resiliency displayed by business activity so far this year in the face of record-high interest rates and the continuing erosion of real incomes by inflation is prompting a broad reevaluation of the economic outlook. While the consensus among forecasters still is for some decline in economic activity during the course of 1980, the projected depth and duration of the downturn is in most cases being moderated, and a few analysts are ruling out any significant weakening altogether. As a result, and with the Federal budget feared to be slipping out of control, confidence is rapidly ebbing that any meaningful headway will be made this year in curbing the alarming advance in costs and prices.

Clearly, the prospects for slowing inflation have suffered a serious setback recently in view of the further hike in oil prices by OPEC and the indicated speedup of Government spending. At the same time, the step-up in military outlays in response to the situation in Southwest Asia obviously is changing expectations concerning the business—and the financial—outlook, and will probably be providing actual support to economic activity before the year is out.

In such an unsettled and still fluid environment, however, there also is the danger of overreacting in projecting the path the economy may take in the period ahead. There are conspicuous soft spots in the economy, most notably the automobile industry and housing, and with the renewed advance in interest rates the odds certainly favor some easing elsewhere moving through the spring and into the summer. Whether this weakness will assume the proportions of a full-fledged recession is still conjectural and, in any event, is less signficant than if the foundation will be laid for a healthy and sustained recovery in overall economic activity next year.

The Puzzling Consumer The surprising refusal of business activity to give any real ground stems in large measure from the behavior of the consumer. Despite the marked erosion of buying power caused by the rapid inflation—and even though more families are being pushed into higher tax brackets—consumers have generally continued to spend on a variety of goods and services.

Retail sales, including automobiles, thus far this winter have been stronger than nearly all forecasters—and most retailers—had anticipated; sales of foreign-made cars and the down-sized domestic models were remarkably brisk in January. Though the mild weather over much of the country was undoubtedly a factor contributing to the sustained good showing of retail trade, the primary reasons are the efforts of many consumers to beat price increases and their apparent desire to maintain living standards, even if it requires cutting back on savings and taking on more debt.

There are other special factors—rising equity in homes, demographic factors, the overwithholding of personal income taxes last year and the sizable amount of personal income that goes unreported—which help to explain the current abnormally low saving rate and may keep it below the levels of earlier years for a time. Meanwhile, the growth of consumer credit is already slowing. And looking ahead, a softening employment picture is bound to put something of a damper on buying, especially of big-ticket durable goods and other discretionary items, given the existing burden of consumer debt and the rapidly rising prices of energy and most other living essentials.

Vulnerability of Housing Similarly, it is hard to see how a further decline in residential building can be avoided in the months ahead. Unusually good building weather helped bolster housing starts in January. But even so, activity eased and all of the indicators of the housing market—new building permits, residential contract awards, sales of both new and existing homes and housing prices—are pointing to more weakness. The disintermediation experienced for some months by the thrift institutions will be accentuated by the latest in interest rates, and, despite the temporary suspension of the usury ceilings, the thrifts are increasingly reluctant to make new mortgage commitments. At the same time, many would-be home buyers are being pushed out of the market by the record cost of mortgage financing and the stiffer borrowing requirements being imposed.

Still, home building does not seem vulnerable to a steep drop, since the thrifts are better able to compete for funds than in previous periods of high interest rates, and residential building is receiving greater support from the secondary mortgage market. Also, the demand for housing is basically strong, in part because of inflation, and Government actions, such as the program of increased housing subsidies, should tend to bolster activity somewhat. Residential building, however, will stay depressed until the thrift institutions see a pickup in their deposit growth and mortgage rates come down.

Capital Spending Picture Although business investment has been holding up well, the latest survey of capital spending intentions points to a slackening in the second half of this year. And as the pace of home building and consumer buying slows and there is more evidence that profits are being squeezed, some plant and equipment expenditure plans may be scaled back, especially with the rising cost of financing. Yet there

QUARTERLY ECONOMIC BENCHMARKS

(dollar amounts in billions)

	1978				1979				1980			
	1st (act.)	2nd (act.)	3rd (act.)	4th (act.)	1st (act.)	2nd (act.)	3rd (act.)	4th (act.)	1st (proj.)	2nd (proj.)	3rd (proj.)	4th (proj.)
GNP (const. 1972$)	1367.8	1395.2	1407.3	1426.6	1430.6	1422.3	1433.3	1438.4	1441.7	1431.5	1419.8	1425.8
Per cent change (1)	1.9	8.3	3.5	5.6	1.1	−2.3	3.1	1.4	.3	−2.8	−3.2	1.7
GNP price deflator (2)	147.0	150.8	153.4	156.7	160.2	163.8	167.2	170.7	175.0	179.4	183.8	187.8
Per cent change (1)	6.3	10.7	7.2	8.7	9.3	9.3	8.5	8.7	10.5	10.5	10.0	9.0
Consumer price index (3)	188.9	193.5	197.7	202.0	207.4	214.1	220.7	227.7	237.3	246.6	254.1	260.4
Per cent change (1)	8.9	10.7	8.4	8.5	13.0	13.4	13.2	13.5	18.5	16.0	11.0	10.0
Gross national product	2011.3	2104.2	2159.6	2235.2	2292.1	2329.8	2396.5	2455.8	2523.3	2568.8	2609.3	2677.4
Consumer spending	1287.2	1331.2	1369.3	1415.4	1454.2	1475.9	1528.6	1580.4	1621.4	1649.6	1682.4	1724.8
Durable goods	185.3	200.3	203.5	212.1	213.8	208.7	213.4	215.5	219.7	219.5	222.5	227.9
Autos and parts	84.1	93.5	92.4	94.9	97.7	89.1	89.8	88.6	91.9	90.8	91.9	94.1
Other durables	101.2	106.8	111.1	117.2	116.1	119.6	123.6	126.9	127.8	128.7	130.6	133.8
Nondurable goods	505.9	521.8	536.7	558.1	571.1	581.2	604.7	631.0	646.5	657.5	668.7	684.9
Services	596.0	609.1	629.1	645.1	669.3	686.0	710.6	733.9	755.2	772.5	791.2	812.1
Investment outlays	327.0	352.3	356.2	370.5	373.8	395.4	392.3	383.3	398.5	403.2	399.9	409.3
Fixed investment	304.1	326.5	336.1	349.8	354.6	361.9	377.8	376.9	388.0	387.5	387.4	394.6
Nonresidential	203.7	218.8	225.9	236.1	243.4	249.1	261.8	261.3	272.9	277.0	279.1	283.8
Structures	66.9	75.2	79.7	84.4	84.9	90.5	95.0	98.7	104.3	106.3	107.6	108.9
Equipment	136.8	143.6	146.3	151.8	158.5	158.6	166.7	162.6	168.6	170.7	171.5	174.9
Residential	100.5	107.7	110.2	113.7	111.2	112.9	116.0	115.6	115.1	110.5	108.3	110.9
Change in inventories	22.8	25.8	20.0	20.6	19.1	33.4	14.5	6.4	10.5	15.7	12.6	14.7
Net exports	−22.2	−7.6	−6.8	−4.5	4.0	−8.1	−2.3	−7.7	−15.4	−14.0	−15.0	−15.0
Exports	184.4	205.7	213.8	224.9	238.5	243.7	267.3	280.0	293.7	304.0	312.8	321.1
Imports	206.6	213.3	220.6	229.4	234.4	251.9	269.5	287.7	309.1	318.0	327.8	336.1
Government expenditures	419.4	428.3	440.9	453.8	460.1	466.6	477.8	499.8	518.8	530.0	541.9	558.3
Federal	150.9	148.2	152.3	159.0	163.6	161.7	162.9	177.0	187.8	191.8	196.4	204.4
National defense	97.6	98.2	99.0	101.2	103.4	106.0	109.0	114.6	118.1	121.7	125.4	132.0
Other	53.3	50.0	53.3	57.8	60.2	55.7	53.9	62.4	69.7	70.1	71.0	72.4
State and local	268.5	280.1	288.6	294.8	296.5	304.9	314.9	322.8	331.0	338.2	345.6	353.9
Final sales	1988.5	2078.4	2139.5	2214.5	2272.9	2296.4	2381.9	2449.5	2512.8	2553.1	2596.7	2662.7
Per cent change (1)	7.5	19.3	12.3	14.8	11.0	4.2	15.7	11.8	10.2	6.6	7.0	10.6
Final sales (const. 1972$)	1351.3	1379.6	1395.1	1414.6	1418.4	1404.1	1426.2	1435.2	1435.7	1422.7	1413.0	1418.0
Per cent change (1)	.4	8.6	4.6	5.7	1.1	−4.0	6.4	2.5	−.7	−3.6	−2.7	1.4
Personal income	1634.8	1689.3	1742.5	1803.1	1852.6	1892.5	1946.6	2000.5	2047.7	2092.3	2147.6	2209.3
Disposable income	1395.0	1437.3	1476.5	1524.8	1572.2	1601.7	1640.0	1678.8	1720.1	1755.5	1799.7	1849.2
Disposable income (1972$)	956.6	966.1	976.2	991.5	996.6	993.0	993.4	993.4	979.8	965.3	962.0	964.5
Saving rate (per cent)	5.3	5.0	4.8	4.7	5.0	5.4	4.3	3.3	3.2	3.5	4.0	4.2
Pretax profits	177.5	207.2	212.0	227.4	233.3	227.9	242.3	244.9	244.8	235.1	223.3	220.6
Nonfinancial	155.2	183.3	186.5	200.3	202.3	196.9	209.7	211.9	211.8	202.6	191.3	188.1
Domestic operating	104.3	130.0	135.1	143.8	135.9	133.9	132.3	131.1	129.0	122.0	115.0	113.0
Domestic inventory	23.9	25.1	23.0	28.8	39.9	36.6	44.0	46.9	48.0	45.0	40.0	38.0
Capital consumption adj.	12.4	12.6	13.8	13.8	14.5	14.7	17.6	20.1	20.8	21.5	22.2	22.9
Foreign	10.1	11.0	10.2	9.6	11.9	11.7	15.8	13.8	14.0	14.1	14.1	14.2
Financial	26.8	28.4	30.0	31.5	31.0	31.0	32.6	33.0	33.0	32.5	32.0	32.5
After-tax profits	106.7	122.4	124.6	132.3	142.0	139.3	148.3	148.0	148.1	142.5	135.6	134.1
Plant & equipment exp.	144.2	150.8	155.4	164.0	165.9	173.5	179.3	183.6	188.8	190.2	188.7	188.7
Private housing starts (4)	1.80	2.10	2.04	2.08	1.62	1.83	1.83	1.60	1.40	1.25	1.15	1.40
Auto sales-incl. imports (4)	10.78	11.93	11.34	11.20	11.63	10.53	10.77	9.83	10.50	9.50	9.50	9.70
Industrial production (3)	104.8	145.1	147.9	150.7	152.2	151.9	152.3	152.1	151.4	149.5	148.0	149.1
Per cent change (1)	1.4	12.8	7.9	7.8	4.0	−.6	.9	−.5	−2.0	−5.0	−4.0	3.0
Unemployment rate (per cent)	6.2	6.0	6.0	5.8	5.7	5.7	5.8	5.9	6.3	6.6	7.2	7.4

(1) quarter to quarter, annual rate
(2) index number, base 1972=100
(3) index number, base 1967=100
(4) millions of units
Note: data are seasonally adjusted at annual rates

Economics Division
February 27, 1980

ANNUAL ECONOMIC BENCHMARKS

(dollar amounts in billions)

	1977	1978	1979	1980	Per Cent Change				Per Cent Change (4th Qtr. to 4th Qtr.)			
	(act.)	(act.)	(est.)	(proj.)	1976-77	1977-78	1978-79	1979-80	1976-77	1977-78	1978-79	1979-80
GNP (constant 1972$)	1340.5	1399.2	1431.1	1429.7	5.3	4.4	2.3	—.1	5.7	4.5	.8	—1.0
GNP price deflator (1)	141.7	152.0	165.5	181.5	6.0	7.3	8.9	9.7	6.2	8.2	9.0	10.0
Consumer price index (2)	181.5	195.4	217.4	249.6	6.5	7.7	11.3	14.8	6.7	9.0	12.6	14.4
Gross national product	1899.5	2127.6	2368.5	2594.7	11.6	12.0	11.3	9.5	12.3	13.4	9.9	8.9
Consumer spending	1210.0	1350.8	1509.8	1669.5	11.0	11.6	11.8	10.6	11.3	12.4	11.7	9.1
Durable goods	178.8	200.3	212.8	222.4	13.6	12.0	6.3	4.4	14.4	13.8	1.6	5.3
Autos and parts	81.6	91.2	91.3	92.2	16.6	11.8	.1	.6	14.8	13.4	—6.6	4.8
Other durables	97.2	109.1	121.5	130.2	11.2	12.2	11.4	7.2	14.1	14.1	8.3	5.6
Nondurable goods	481.3	530.6	597.0	664.4	8.4	10.2	12.5	11.3	9.0	11.8	13.1	8.6
Services	549.8	619.8	699.9	782.7	12.5	12.7	12.9	11.8	12.3	12.4	13.8	10.6
Investment outlays	303.3	351.5	386.2	402.7	24.8	15.9	9.9	4.0	26.4	16.9	3.5	5.6
Fixed investment	281.3	329.1	367.8	389.4	20.8	17.0	11.8	5.6	19.9	17.2	7.7	3.6
Nonresidential	189.4	221.1	253.9	278.2	14.9	16.7	14.8	9.3	15.3	18.9	10.7	7.4
Structures	62.6	76.5	92.3	106.8	9.3	22.2	20.5	15.2	13.6	27.5	16.9	8.5
Equipment	126.8	144.6	161.6	171.4	17.9	14.1	11.7	5.9	16.1	14.7	7.1	6.7
Residential	91.9	108.0	113.9	111.2	35.0	17.5	5.5	—2.6	30.1	13.8	1.7	—4.9
Change in inventories	21.9	22.3	18.3	13.3	*	*	*	*	*	*	*	*
Net exports	—9.9	—10.3	—3.5	—14.8	*	*	*	*	*	*	*	*
Exports	175.9	207.2	257.4	307.9	7.7	17.8	24.2	19.4	2.7	29.1	24.5	13.9
Imports	185.8	217.5	260.9	322.7	19.6	17.0	20.0	23.2	15.6	19.3	25.4	15.0
Government expenditures	396.2	435.6	476.1	537.2	9.7	9.9	9.3	12.8	11.5	9.9	10.1	11.4
Federal	144.4	152.6	166.3	195.1	11.3	5.7	9.0	17.1	12.3	5.2	11.3	14.6
National defense	93.7	99.0	108.2	124.3	8.4	5.6	9.3	14.8	8.8	5.0	13.2	15.2
Other	50.6	53.6	58.0	70.8	17.0	5.8	8.3	21.2	19.1	5.5	8.0	13.4
State and local	251.8	283.0	309.8	342.2	8.7	12.4	9.5	10.5	11.0	12.7	9.5	9.6
Final sales	1877.6	2105.2	2350.2	2581.3	10.1	12.1	11.6	9.8	11.3	13.4	10.6	8.6
Final sales (const. 1972$)	1327.4	1385.1	1421.0	1422.4	4.8	4.4	2.6	0	4.9	4.8	1.5	—1.4
Personal income	1531.6	1717.4	1923.0	2124.2	10.9	12.1	12.0	10.4	11.5	12.9	10.9	10.3
Disposable income	1305.1	1458.4	1623.2	1781.1	10.2	11.7	11.3	9.7	11.3	12.0	10.1	10.0
Disposable income (1972$)	929.5	972.6	994.1	967.9	4.2	4.6	2.2	—2.7	5.4	4.2	.2	—3.1
Saving rate (per cent)	5.0	4.9	4.5	3.7	*	*	*	*	*	*	*	*
Pretax profits	177.1	206.0	237.1	230.9	13.5	16.3	15.1	—2.6	17.2	24.3	7.7	—9.9
Nonfinancial	156.4	181.3	205.2	198.4	12.9	15.9	13.2	—3.3	17.7	24.1	5.8	—11.2
Domestic operating	116.5	128.3	133.3	119.8	15.4	10.2	3.9	—10.2	21.6	22.1	—8.8	—13.8
Domestic inventory	15.2	25.2	41.8	42.8	3.2	66.6	66.1	2.2	—8.6	69.4	62.8	—19.0
Capital consumption adj	12.0	13.1	16.7	21.8	—17.0	9.1	27.2	30.6	1.6	6.2	45.7	13.9
Foreign	9.8	10.2	13.3	14.1	19.8	3.8	30.1	5.9	11.0	5.5	43.7	2.8
Financial	23.6	29.2	31.9	32.5	34.0	23.4	9.3	1.9	34.5	20.7	4.8	—1.5
After-tax profits	104.5	121.5	144.4	140.1	13.4	16.3	18.8	—3.0	15.8	22.6	11.9	—9.4
Plant & equipment exp.	135.8	153.8	175.6	189.1	12.7	13.3	14.3	7.6	10.3	18.7	12.0	2.4
Private housing starts (3)	1.99	2.02	1.74	1.30	29.1	1.7	—14.2	—25.4	23.6	—.6	—22.8	—12.7
Auto sales-incl. imports (3)	11.18	11.31	10.67	9.80	10.6	1.1	—5.7	—8.3	7.6	1.0	—12.1	—1.4
Industrial production (2)	138.2	146.1	152.2	149.5	5.9	5.7	4.2	—1.7	5.9	7.4	.9	—2.0
Unemployment rate (per cent)	7.0	6.0	5.8	6.9	*	*	*	*	*	*	*	*

(1) index number, base 1972=100
(2) index number, base 1967=100.
(3) millions of units.
*Not applicable

Economics Division
February 27, 1980

is nothing to suggest a sharp cutback in investment outlays in the months ahead.

New orders for machinery and equipment have been tracing more of a sidewise pattern than a declining trend in recent months, and the same is true for contracts for industrial and commercial building. In addition, a good-sized carry-over of uncompleted investment projects was brought into 1980 from last year, and there is a sizable volume of commitments—unspent capital appropriations and backlogs of machinery and equipment orders—outstanding. Beyond this, the expectation of a step-up in defense spending should work against any widespread trimming of capital spending programs and, with many busines managements apparently looking over the valley and anticipating more inflation, could even lead to a strengthening of outlays in certain industries.

The Inventory Situation A conspicuous weakening in the housing and consumer sectors accompanied by a slowing in capital spending would surely have an effect on business inventory policies, resulting not only in a reduction in the rate of accumulation but possibly even modest liquidation here and there. The inventory situation, though, does not appear highly vulnerable at this point, despite the galloping inflation. Aside from automobiles, where stocks of intermediate and larger domestic model cars are still excessive, and in a few closely related industries which have felt the spillover effects, stocks still appear to be in reasonably good shape, particularly at the retail level. Reflecting in part the record-high cost of carrying inventories, but also the continuing close watch being kept on working stocks, the aggregate inventory-sales ratio entering 1980 was no higher than a year earlier Moreover, order backlogs are still rising in many lines, and the scheduled increase in military outlays no doubt will provide an incentive for some companies to maintain their inventory positions and perhaps even add to their stocks on hand; activity in the aerospace industry is already booming.

Impact of Military Spending The step-up in military spending in no sense will be a replay of the Vietnam buildup. But defense expenditures will be rising more rapidly this year than in 1979 and there will be a further acceleration next year. The projection of defense expenditures contained in the President's January budget appears too low in both the current fiscal year and fiscal 1981; oil costs were estimated using September 1979 prices, and the situation in Afghanistan was not reflected in the estimate of outlays. More important is that, while actual military outlays are projected to rise only gradually, the economy is likely to feel the stimulus of a pickup in military ordering and contracting during the latter half of 1980.

After falling short of budgeted levels for several years, indications are that nondefense spending this year also will exceed the official estimates. As a result, Government spending as a per cent of GNP has bottomed out, and fiscal policy, even without a tax cut, may well be an expansionary force in the economy in the period ahead, rather than exerting the restraint that is sorely needed. Finally, U.S. exports should hold up well for a while, although the slackening of economic expansion abroad points to a less favorable showing for sales overseas later this year.

In short, the prospective weakness in the economy does not suggest that a cumulative decline in overall business activity accompanied by a sharp rise in unemployment is in the offing. It does, however, pose some problems for the Government's economic policy makers.

The Inflation Question Against this background, and even assuming that the Federal Reserve keeps a relatively tight rein on the money supply, there is little likelihood of an early or significant easing in the rate of inflation. Labor costs are being pushed higher because of the sluggish behavior of productivity, and the efforts to catch up with the cost of living and keep abreast of the relentless price spiral will surely encourage larger wage increases this year in both the union and the nonunion sectors now that the guidelines have been eased. The increase in oil prices recently announced by OPEC will add further to energy costs and put more upward pressure on business costs generally. And the growing talk of mandatory price controls can only add to the upward momentum of prices, at least over the near term.

For technical reasons associated with a leveling out of mortgage interest rates and an easing in the rise of prices of new homes, the rate of advance in the consumer price index should slacken later in the year. But in the meantime, these factors will be contributing to an acceleration of the CPI. And of greater concern is that the economy will be winding up 1980 with a much higher base rate of inflation than at the start of the current economic expansion. This hardly bodes well for an early and marked decline in interest rates or for the resumption of rapid economic growth.■

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BANKERS TRUST COMPANY

ECONOMIC BENCHMARKS

July 31, 1980

TAKING STOCK OF THE ECONOMY AT MIDSUMMER

Although the performance of the economy in the several months since business activity abruptly turned downward has essentially followed the path generally forecast in the spring, there still is a conspicuous lack of agreement regarding the magnitude of the current recession. Apparently, a consensus has finally developed that this downturn in sales, output and employment will be less severe than that in 1974-75, and the emerging signs that the earlier rapid descent in overall business activity has slackened is also prompting some analysts to conclude that the economic downturn may also turn out to be relatively short. But as of now, the only expectation on which there seems to be widespread concurrence among forecasters is that the ensuing business recovery, when it sets in, will be comparatively slow.

Behind The Diversity The continuing diversity of opinion concerning the pattern the economy is expected to follow in the coming months should not be surprising after the precipitous fall in business activity in the spring, and it is, in fact, altogether typical of this stage of the business cycle, when the economy is emitting mixed signals. There is no demonstrable relationship between the speed and momentum of the onset of a recession and its ultimate severity. Moreover, just as a case can be made in the present situation that the unprecedentedly swift and steep decline in borrowing costs in the spring and the current absence of a big inventory overhang provide grounds for optimism regarding near-term economic prospects, so the lingering effects of the earlier double-digit inflation and record-high interest rates, in combination with the existing problems of the automobile industry, make for uneasiness.

Clearly, the worst of this economic adjustment is behind us, and, judging from the sharp turnaround in the index of leading indicators in June and other straws in the wind, it may not be too long before the recession reaches bottom. But whether this will be followed by a prompt pickup in business activity, as occurred after the last recession, seems questionable at this point, and, in any event, it will not put an end to the rise in unemployment or to financial stresses and strains. What also remains in doubt is whether the recession will result in lasting headway being made in dampening inflation. In both cases, the outcome will depend importantly upon the course of Government economic policy in the coming months and on business and consumer psychology.

The Uncertain Consumer Since the speed and momentum of the business downturn thus far is attributable primarily to the retrenchment by consumers, especially the marked cutback in their buying of automobiles and other big-ticket durable goods, consumer spending obviously will be highly important in influencing the course of economic activity in the period ahead. At present, both favorable and unfavorable trends are at work here.

On the encouraging side, retail sales rose a healthy 1½ per cent in June, after declining more sharply from February through May than at any time in thirty years. While much of this improvement was in automobile sales—in large part reflecting higher prices—significant sales gains were likewise reported for a variety of other durable goods, as well as in soft goods. Encouraging, too, is the fact that new car sales had a better tone in July. Meanwhile, some $16 billion was injected into the spending stream in July with the adjustment in Social Security benefit payments. And, in addition, the Federal Reserve recently dismantled the controls it imposed on consumer credit in mid-March, which put an unexpected damper on retail trade in the spring; the reduction in instalment credit outstanding during the second quarter was the largest since stringent controls were put on consumer borrowing in the early stages of the Korean War.

At the same time, real disposable income still is being eroded both by rising living costs and by "bracket creep," as more people are pushed into higher tax brackets. Many families are having to cope with high indebtedness. Although the saving rate has moved up from the historical low point reached during the winter, it falls well short of the levels reached during previous recessions. And, in addition, consumer buying is bound to be restrained by the decline in employment. Undoubtedly, the big cutback in consumer spending is over for the time being, and with the introduction of the new small cars by Chrysler and Ford in September and October, automobile sales will surely strengthen more conspicuously later in the year, though the public's reaction to the new models is still quite unclear. But consumer confidence will take time to recover, as will household liquidity, and even the enactment of a tax cut will do little more than offset the hike in Social Security taxes effective January 1. Accordingly, the consumer is not likely soon to provide any great support to business activity.

Recovery In Housing As with automobiles, the evidence confirms that residential building already has passed its low point and is beginning to recover. Reflecting the somewhat greater availability—and the significantly reduced cost—of residential mortgage money as a result of the increased flow of funds into the thrift institutions, housing starts rose by 30 per cent in June to an annual rate of nearly 1.2 million, with both single-family units and apartment buildings participating in the advance. The marked strengthening in sales of new homes recently, the pickup in buying of existing houses and the rise in new building permits and in residential contract awards in June all point to further—though perhaps somewhat uneven—gains in residential construction activity through the autumn and into next year.

The step-up in housing activity, however, will more likely be gradual than rapid. Even though there is no large overhang of

QUARTERLY ECONOMIC BENCHMARKS

(dollar amounts in billions)

	1979				1980				1981			
	1st (act.)	2nd (act.)	3rd (act.)	4th (act.)	1st (act.)	2nd (act.)	3rd (proj.)	4th (proj.)	1st (proj.)	2nd (proj.)	3rd (proj.)	4th (proj.)
GNP (const. 1972$)	1430.6	1422.3	1433.3	1440.3	1444.7	1410.8	1396.5	1397.3	1403.1	1413.8	1428.7	1443.2
Per cent change (1)	1.1	−2.3	3.1	2.0	1.2	−9.1	−4.0	.2	1.7	3.1	4.3	4.1
GNP price deflator (2)	160.2	163.8	167.2	170.6	174.5	178.9	182.8	186.9	191.0	195.0	198.7	202.8
Per cent change (1)	9.3	9.3	8.5	8.3	9.5	10.4	9.0	9.5	9.0	8.5	8.0	8.5
Consumer price index (3)	207.6	214.0	220.8	228.0	237.1	244.8	250.3	255.0	259.6	264.6	269.7	275.1
Per cent change (1)	13.0	12.8	13.8	13.7	18.1	11.6	8.0	7.5	7.5	8.0	8.0	8.5
Gross national product	2292.1	2329.8	2396.5	2456.9	2520.8	2523.4	2552.2	2612.2	2680.2	2756.3	2839.4	2927.3
Consumer spending	1454.2	1475.9	1528.6	1580.4	1629.5	1628.2	1659.7	1698.2	1741.1	1789.5	1843.2	1896.7
Durable goods	213.8	208.7	213.4	216.2	220.2	197.0	200.2	203.2	207.2	213.0	220.1	226.6
Autos and parts	97.7	89.1	89.8	89.4	92.9	71.9	74.5	76.3	78.1	80.4	83.1	85.7
Other durables	116.1	119.6	123.6	126.8	127.3	125.1	125.7	127.0	129.1	132.5	137.0	140.9
Nondurable goods	571.1	581.2	604.7	630.7	652.0	654.4	664.0	678.5	694.8	712.4	731.2	750.5
Services	669.3	686.0	710.6	733.5	757.3	776.8	795.5	816.6	839.1	864.2	892.0	919.6
Investment outlays	373.8	395.4	392.3	387.2	387.7	366.9	352.4	356.3	366.1	378.9	392.8	408.2
Fixed investment	354.6	361.9	377.8	381.7	383.0	355.2	350.4	352.3	359.1	368.9	380.8	394.2
Nonresidential	243.4	249.1	261.8	265.2	272.6	265.9	248.9	251.9	256.8	263.6	272.0	281.5
Structures	84.9	90.5	95.0	100.2	103.3	102.7	101.5	100.4	102.3	105.3	108.8	112.6
Equipment	158.5	158.6	166.7	165.1	169.4	163.2	164.4	166.4	169.3	173.0	177.1	182.2
Residential	111.2	112.9	116.0	116.4	110.4	89.3	84.5	85.5	87.6	90.7	94.9	99.3
Change in inventories	19.1	33.4	14.5	5.6	4.7	11.7	2.0	4.0	7.0	10.0	12.0	14.0
Net exports	4.0	−8.1	−2.3	−11.9	−13.6	1.3	2.0	2.8	2.9	2.2	1.5	.7
Exports	238.5	243.7	267.3	280.4	308.1	307.3	314.0	320.8	327.8	335.0	343.0	352.1
Imports	234.4	251.9	269.5	292.4	321.7	306.0	311.9	318.0	324.9	332.8	341.6	351.4
Government expenditures	460.1	466.6	477.8	501.2	517.2	527.0	538.0	554.8	570.1	585.7	601.9	621.6
Federal	163.6	161.7	162.9	178.4	186.2	192.5	197.8	206.4	212.5	219.1	226.0	236.2
National defense	103.4	106.0	109.0	114.6	119.6	123.6	127.6	134.5	138.8	143.3	148.2	156.6
Other	60.2	55.7	53.9	63.8	66.6	68.9	70.2	71.9	73.7	75.8	77.8	79.7
State and local	296.5	304.9	314.9	322.8	331.0	334.5	340.2	348.4	357.6	366.7	375.9	385.4
Final sales	2272.9	2296.4	2381.9	2451.4	2516.1	2511.7	2550.2	2608.2	2673.2	2746.3	2827.4	2913.3
Per cent change (1)	11.0	4.2	15.7	12.2	11.0	−.7	6.3	9.4	10.4	11.4	12.3	12.7
Final sales (const. 1972$)	1418.4	1404.1	1426.2	1439.0	1444.4	1408.5	1395.4	1395.1	1399.5	1408.7	1422.6	1436.3
Per cent change (1)	1.1	−4.0	6.4	3.6	1.5	−9.6	−3.7	−.1	1.2	2.7	4.0	3.9
Personal income	1852.6	1892.5	1946.6	2005.0	2057.4	2078.3	2121.1	2172.5	2230.5	2299.7	2384.0	2450.6
Disposable income	1572.2	1601.7	1640.0	1683.1	1737.4	1754.0	1788.0	1829.3	1876.0	1931.9	2000.4	2053.8
Disposable income (1972$)	996.6	993.0	993.4	996.2	998.5	984.2	982.0	984.4	990.3	1001.5	1018.4	1025.7
Saving rate (per cent)	5.0	5.4	4.3	3.5	3.7	4.7	4.8	4.8	4.8	5.0	5.5	5.3
Pretax profits	233.3	227.9	242.3	243.0	260.4	224.4	212.0	200.5	203.0	215.0	231.0	245.3
Nonfinancial	202.3	196.9	209.7	209.4	227.3	191.4	180.0	169.5	173.0	184.5	199.0	211.3
Domestic operating	135.9	133.9	132.3	129.3	125.9	123.0	115.0	110.0	114.0	123.0	135.0	145.0
Domestic inventory	39.9	36.6	44.0	46.5	63.2	27.8	25.0	20.0	18.0	19.0	20.0	21.0
Capital consumption adj.	14.5	14.7	17.6	20.1	22.2	24.6	26.0	27.5	29.0	30.0	31.0	31.8
Foreign	11.9	11.7	15.8	13.5	16.1	16.0	14.0	12.0	12.0	12.5	13.0	13.5
Financial	31.0	31.0	32.6	33.6	33.1	33.0	32.0	31.0	30.0	30.5	32.0	34.0
After-tax profits	142.0	139.3	148.3	146.9	158.0	137.0	129.0	121.5	122.9	130.1	139.6	148.1
Plant & equipment exp.	165.9	173.5	179.3	186.9	191.4	192.3	191.3	190.4	190.4	191.3	194.6	200.2
Private housing starts (4)	1.67	1.82	1.81	1.59	1.26	1.04	1.15	1.25	1.35	1.45	1.55	1.60
Auto sales-incl. imports (4)	11.63	10.53	10.77	9.83	10.77	7.67	8.60	8.90	9.10	9.40	9.90	10.40
Industrial production (3)	152.2	151.9	152.3	152.2	152.2	144.7	140.0	139.3	140.3	142.0	144.1	146.2
Per cent change (1)	4.0	−.6	.9	−.3	.1	−18.2	−12.5	−2.0	3.0	5.0	6.0	6.0
Unemployment rate (per cent)	5.7	5.8	5.8	5.9	6.1	7.5	8.0	8.5	8.7	8.5	8.1	7.7

(1) quarter to quarter, annual rate
(2) index number, base 1972 = 100
(3) index number, base 1967 = 100
(4) millions of units
Note: data are seasonally adjusted at annual rates.

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ANNUAL ECONOMIC BENCHMARKS

(dollar amounts in billions)

	1978	1979	1980	1981	Per Cent Change				Per Cent Change (4th Qtr. to 4th Qtr.)			
	(act.)	(act.)	(proj.)	(proj.)	1977-78	1978-79	1979-80	1980-81	1977-78	1978-79	1979-80	1980-81
GNP (constant 1972$)	1399.2	1431.6	1412.3	1422.2	4.4	2.3	—1.3	.7	4.8	1.0	—3.0	3.3
GNP price deflator (1)	152.0	165.5	180.7	196.9	7.3	8.8	9.2	9.0	8.2	8.9	9.6	8.5
Consumer price index (2)	195.4	217.4	246.8	267.2	7.7	11.3	13.4	8.3	9.0	12.7	11.8	7.9
Gross national product	2127.6	2368.8	2552.1	2800.8	12.0	11.3	7.7	9.7	13.4	9.9	6.3	12.1
Consumer spending	1350.8	1509.8	1653.9	1817.7	11.6	11.8	9.5	9.9	12.4	11.7	7.5	11.7
Durable goods	200.3	213.0	205.1	216.7	12.0	6.3	—3.7	5.6	13.8	1.9	—6.0	11.5
Autos and parts	91.2	91.5	78.9	81.8	11.8	.3	—13.8	3.7	13.4	—5.8	—14.7	12.4
Other durables	109.1	121.5	126.3	134.9	12.2	11.4	3.9	6.8	14.1	8.2	.1	11.0
Nondurable goods	530.6	596.9	662.2	722.2	10.2	12.5	10.9	9.1	11.8	13.0	7.6	10.6
Services	619.8	699.8	786.5	878.7	12.7	12.9	12.4	11.7	12.4	13.7	11.3	12.6
Investment outlays	351.5	387.2	365.8	386.5	15.9	10.2	—5.5	5.6	16.9	4.5	—8.0	14.6
Fixed investment	329.1	369.0	360.2	375.7	17.0	12.1	—2.4	4.3	17.2	9.1	—7.7	11.9
Nonresidential	221.1	254.9	259.8	268.5	16.7	15.2	1.9	3.3	18.9	12.3	—5.0	11.8
Structures	76.5	92.6	102.0	107.2	22.2	21.0	10.1	5.2	27.5	18.7	2	12.2
Equipment	144.6	162.2	165.9	175.4	14.1	12.2	2.2	5.7	14.7	8.8	.6	9.5
Residential	108.0	114.1	92.4	93.1	17.5	5.7	—19.0	.8	13.8	2.4	—26.6	15.2
Change in inventories	22.3	18.2	5.6	10.7	*	*	*	*	*	*	*	*
Net exports	—10.3	—4.6	—1.9	1.8	*	*	*	*	*	*	*	*
Exports	207.2	257.5	312.6	339.5	17.8	24.3	21.4	8.6	29.1	24.7	14.4	9.7
Imports	217.5	262.1	314.4	337.7	17.1	20.5	20.0	7.4	19.3	27.5	8.8	10.5
Government expenditures	435.6	476.4	534.3	594.8	9.9	9.4	12.1	11.3	9.9	10.4	10.7	12.0
Federal	152.6	166.6	195.7	223.4	5.7	9.2	17.5	14.2	5.2	12.2	15.7	14.4
National defense	99.0	108.3	126.3	146.7	5.6	9.3	16.7	16.1	5.0	13.2	17.4	16.4
Other	53.6	58.4	69.4	76.7	5.8	9.0	18.9	10.5	5.5	10.4	12.7	10.7
State and local	283.0	309.8	338.5	371.4	12.4	9.5	9.3	9.7	12.7	9.5	7.9	10.6
Final sales	2105.2	2350.6	2546.5	2790.1	12.1	11.7	8.3	9.6	13.4	10.7	6.4	11.7
Final sales (const. 1972$)	1385.1	1421.9	1410.9	1416.8	4.4	2.7	—.8	.4	4.8	1.7	—3.0	2.9
Personal income	1717.4	1924.2	2107.3	2341.2	12.1	12.0	9.5	11.1	12.9	11.2	8.4	12.8
Disposable income	1458.4	1624.3	1777.2	1965.5	11.7	11.4	9.4	10.6	12.0	10.4	8.7	12.3
Disposable income (1972$)	972.6	994.8	987.3	1009.0	4.6	2.3	—.8	2.2	4.2	0.5	—1.2	4.2
Saving rate (per cent)	4.9	4.5	4.5	5.2	*	*	*	*	*	*	*	*
Pretax profits	206.0	236.6	224.3	223.6	16.3	14.9	—5.2	—.3	24.3	6.9	—17.5	22.3
Nonfinancial	176.8	204.6	192.0	191.9	15.9	15.7	—6.1	—.1	24.9	6.9	—19.1	24.7
Domestic operating	128.3	132.9	118.5	129.2	10.2	3.5	—10.8	9.1	22.1	—10.1	—14.9	31.8
Domestic inventory	25.2	41.8	34.0	19.5	66.6	65.9	—18.6	—42.6	69.4	61.5	—57.0	5.0
Capital consumption adj.	13.1	16.7	25.1	30.4	9.1	27.5	49.9	21.4	6.2	45.7	36.8	15.6
Foreign	10.2	13.2	14.5	12.7	3.8	29.4	9.8	—12.2	5.5	40.6	—11.1	12.5
Financial	29.2	32.1	32.3	31.6	23.4	9.9	.7	—2.0	20.7	6.7	—7.7	9.7
After-tax profits	121.5	144.1	136.4	135.2	16.3	18.6	—5.4	—.9	22.6	11.0	—17.3	21.9
Plant & equipment exp.	153.8	177.1	191.3	194.1	13.3	15.1	8.5	1.4	18.7	14.0	1.8	5.1
Private housing starts (3)	2.02	1.75	1.18	1.49	1.7	—13.6	—31.6	26.4	—1.0	—22.4	—21.6	28.0
Auto sales-incl. imports (3)	11.31	10.67	8.98	9.70	1.1	—5.7	—16.0	8.0	.9	—11.9	—9.5	16.8
Industrial production (2)	146.1	152.2	144.0	143.2	5.7	4.2	—5.3	—.6	7.4	1.0	—8.5	5.0
Unemployment rate (per cent)	6.0	5.8	7.5	8.2	*	*	*	*	*	*	*	*

(1) index number, base 1972 = 100.
(2) index number, base 1967 = 100.
(3) millions of units.
*Not applicable.

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vacant condominiums to be absorbed, as in 1975, the inventory of unsold single-family homes amounts to an 8-months' supply at the current selling rate. The flow of deposits to the thrift institutions so far has not been strong while mortgage interest rates remain relatively high. Moreover, though the underlying demand for housing is apparently strong—in part as an inflation hedge—many prospective home buyers still are being priced out of the market and certainly the ability and willingness of some families to purchase new houses will be constrained for a while by the rise in unemployment. Meanwhile, construction of shopping centers and certain other types of commercial building, which tend to follow closely the pattern of housing, has softened and this trend is likely to continue.

Business Investment Picture Capital spending, too, is just beginning to react to the recession. As with retail sales, business purchases of cars and trucks, which were cut back appreciably early in the year, have apparently stabilized, but some expansion and modernization programs are being held up or stretched out. With the overall operating rate in manufacturing now down to just over 76 per cent of capacity and with profits being squeezed in many lines, plant and equipment outlays will surely move lower during the second half of this year.

The cutbacks in capital spending, though, do not show signs of being substantial. Business investment was not overdone during the 1975-79 expansion and there was a good-sized carryover of uncompleted investment projects at midyear. Many business managements are under strong pressure to cut costs and others, looking over the valley and anticipating both bigger markets and more inflation, are reluctant to cut into existing plant expansion programs. The capital expenditure plans of the energy companies are substantial and the indicated step-up in defense spending works against any trimming of capital spending in related areas.

The Inventory Situation The last recession proved to be so severe primarily because of the extent of the inventory liquidation. An involuntary buildup of stocks on hand occurred in the spring in some industries, particularly among manufacturers of durable goods, in the wake of the sharp drop off in business sales and incoming orders, which is now in the process of being corrected. With capital spending weakening, producers may find it necessary to reduce their inventories. But, generally speaking, stocks were in relatively good shape when the recession hit and the response of managements since then, especially in retail and wholesale trade, has been far prompter than in 1974, when business activity turned downward. So, while inventory adjustments will continue to be made, probably through the rest of this year, an extended and large-scale correction seems unlikely. By the same token, most business managements will probably be cautious about adding to stocks on hand, once their sales pick up.

Reaching A Conclusion In contrast with the situation in the 1974-75 recession where military ordering and production were on the decline, the defense sector is now expanding and giving a lift to some industries and some sections of the country. Almost certainly, military expenditures will be advancing through 1981, but not on a scale to give significant support to overall business activity. Similarly, while our exports of manufactured products have been turning in a good performance in recent months and should continue to be well maintained for a while, at least, the signs of slackening of economic growth abroad points to a less favorable showing for foreign sales of U.S. goods next year.

Taken together, these developments and prospects favor a more gradual recovering in the economy, rather than the fairly rapid upturn which usually has occurred in the wake of recessions. This seems all the more likely, since, even though Federal spending will be rising, fiscal policy is unlikely to become as stimulative as in the past; a personal income tax cut of the size now being discussed will no more than offset the scheduled hike in Social Security taxes and the effect of "bracket creep," and if new incentives for business investment are provided, they will impact with a lag. In addition, the indications are that the monetary authorities are following a less expansionary course than during previous economic downturns. And this is likely to remain Fed policy, given the expanding budget deficit, existing inflationary expectations and the price-cost picture, which is far from encouraging.

The Inflation Picture The rate of advance in the consumer price index has come down appreciably from the exaggerated pace during the winter, and, for technical reasons associated with the decline in home mortgage interest rates, and with energy prices rising less rapidly as a result of the marked easing in gasoline demand, the pace of increase in the CPI should slow noticeably further between now and the end of this year. The past record also shows that inflation invariably tends to ease in the early stage of economic recoveries; low plant operating rates foster aggressive pricing policies while at the same time most industries are able to realize gains in efficiencies as operating rates move up, and offset some of their increases in fixed costs.

But even so, the economy will be winding up 1980 with a much higher base rate of inflation than at the start of the last economic expansion in 1975. Moreover, the adverse effect of the recent heat wave in the Southwest and the drought in the Plains states will be working their way into food prices in the coming months. Energy prices can be expected to rise faster next year. And labor costs continue to be pushed higher by the efforts to catch up with the cost of living and because of the poor performance of productivity. Such a background does not bode well for the resumption of rapid and sustained economic growth.■